

COOPERATIVE PAPER

NO 1 EMPOWERING CONSUMERS THROUGH COOPERATION

David Griffiths
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The Government's review of the State Electricity Commission of Victoria (SECV) is predicated on examining the possibilities for privatisation. Various reports over recent years have promoted the virtue of privatisation. (1)

There is another option for the SECV - cooperatisation. This paper, therefore, examines the desirability of electric cooperatives in the context of (a) the Government's commitment to empowering consumers and (b) the experience of approximately 1000 electric cooperatives serving a population of 25 million in rural U.S.A.

The Victorian Treasurer, Mr Alan Stockdale, has said:

The strongest economy in the world is probably the United States economy, and in its formative years it was largely built on foreign capital and imported labour. (2)

A critical explanation for the strength of the United States economy is the diversity of ownership. The electric industry, for example, has cooperative, private and public providers. Instead of a demand for privatisation, there is an acceptance of coexistence.

Leonard J. Kujawa, Worldwide Director of Energy and Telecommunications, of Arthur Andersen & Co, has made the following observations on the electric industry in the U.S.A:

The government-owned , or consumer-owned entities in the electric industry could be found around the world. In the worldwide trend, the public sign is coming down and the industry is being privatized. I have been to Europe three times in the last six weeks and the focus has been privatization - the transformation of the industry from government/consumer owned to private. That's the world trend. It is not a phenomena in the United States. I have not heard much of a need to privatize the federal power marketing agencies, or the consumer-owned utilities. I have not heard much about privatizing the Tennessee Valley Authority.

I know why it is happening overseas and internationally. They think that their electric companies are inefficient and that privatization is a way to get them to be efficient in a global economy.

That doesn't seem to be an issue for you or the municipals or the federal/state agencies, which is very good. It means that in the marketplace, you are perceived as an efficient supplier of electricity, and you aren't being challenged by this movement. It is a compliment to you and what you have accomplished, obviously.

(3)

EMPOWERING CONSUMERS

In discussing privatisation, the Victorian Treasurer, Mr Alan Stockdale, has said:

I think there's a clear recognition throughout the Victorian Government that public benefit is our goal, that that's going to require a focus on empowering consumers - households, but particularly industry. (4)

The Government's understanding of empowerment was subsequently expanded in its explanation for the reform of government businesses:

The program is designed to serve a wide range of objectives, but the overriding goal of these reforms is to provide enhanced performance and enduring public benefit for the Victorian community. (5)

The Government has identified its three primary objectives as greater efficiency in the use of the State's total resources, empowering consumers and reduction of State deb:

Empowering Consumers. The program will maximise product market competition and consumer choice with benefits to both households and industry. It will enhance the quality of the service received by the community by providing economic power through choice. (6)

There is only one way that consumers can be empowered - through cooperative ownership. Cooperatisation empowers households as the owners of particular enterprises.

Victoria already has a significant cooperative sector with over 1,000 agriculture, child care, credit, dispensary, housing, insurance, marketing and retail cooperatives.

People establish cooperatives to own, control and patronise their own business. Cooperatives promote self-determination through mutual aid. Cooperatives combine democracy with free enterprise - involving an alternative organisational philosophy, structure and practice. Each member has only one vote.

Cooperative ownership enables communities to control their own economic institutions and access to services - reducing their dependency on the public and private sectors.

U.S.A. EXPERIENCE

There are approximately 1000 rural electric co-operatives in the U.S.A. owned and controlled by 12 million consumers and serving 10.5% of the country's population (25 million). The cooperatives own and maintain more than half the electric distribution lines in the U.S.A. and distribute about 7% of the nation's electricity.

The electric cooperatives have a common commitment to cooperative philosophy and principles and, therefore, economic democracy. In 1988 the typical electric cooperative had the following characteristics:

Number of consumers	7,987
Miles of line	1,961
Number of employees	35
Annual KWh sales	122,874,000
Investment in plant	18,073,503
Annual operating revenues	9,017,052(7)

In the U.S.A. electric cooperatives originated with and have maintained a broad social purpose - including satellite technology, health promotion and economic development. In 1984 about 23% of rural electric cooperatives were involved in economic development. By 1990 this had increased to 74% and an additional 14% reported that they would launch programs. Since 1961 the cooperatives have helped start and expand more than 25,500 projects - producing nearly a million new jobs.

In 1986 the National Rural Telecommunications Cooperative was established to foster the development and growth of satellite technology in rural America. In 1987 the National Rural Health Network was established to promote healthy lifestyles and reduce risk for disease in rural communities.

While the typical cooperative is small, the electric cooperatives are remarkably diverse - reflecting and reinforcing a commitment to cooperative democracy, the technological developments and stages of the industry and economies of scale.

The Minnkota Power Cooperative at Grand Forks, North Dakota, generates power for 38 cooperative and public utilities - serving

3,539,348 consumers. The cooperative has 353 full-time employees and total sales of electric energy of \$U.S. 87,405,611. (8) The Oregon Trail Electric Consumers cooperative at Baker City, Oregon, was established as a distribution cooperative in 1988 - taking over a private utility. The cooperative has 96 full-time employees, 25,601 consumers and an operating revenue of \$U.S. 31,872,272. (9)

In 1969 the electric cooperatives established a cooperative finance company- the National Rural Utilities Cooperative Finance Corporation (CFC). The electric cooperative members of the CFC have a vested interest in how investors perceive the investment risks associated with the rural electric cooperative movement. CFC is a \$U.S. 8 billion finance company whose credit depends upon the credit of its members.

In 1992 the CFC requested three investment bankers to provide their views on capital market access for rural electric cooperatives. The bankers were:

Robert R. Edmiston, Lehman Brothers.

Jerry F. Hilligoss, Merrill Lynch & Co.

J.Scott Magrane, Goldman, Sachs & Co.

The bankers concluded that the CFC was a strong well-established name in the market with strong investment grade credit ratings. The bankers said that if CFC members maintain, on average, the credit standards they have exhibited in recent years, CFC will be able to meet all the funding requirements of its distribution members. (10)

CONSUMER SATISFACTION

In January 1992 the National Rural Electric Cooperative Association commissioned the Roper Organization to conduct in-home interviews with a nationwide cross section of 1,010 adults on public attitudes towards rural America - including opinions on electric service.

Consumers were asked to rate cooperative, public and private utilities.

Cooperatives rated the highest in seven of nine areas.

Perceptions of Electric Systems

	Private	Public	Cooperative
Which would be better in terms of:			
The fairness of the profits they make.	10%	23%	34%
The concern they have for the environment.	9%	23%	32%
Their efficiency in managing their business.	16%	22%	31%
The fairness of the rates they charge.	10%	27%	31%
Providing dependable service.	14%	26%	30%
The interest they have in consumers.	18%	23%	29%
The influence that consumers are able to have			

on what is done.	13%	26%	29%
Communicating with consumers.	17%	27%	25%
Their ability to keep up with advances in technology and equipment.	19%	28%	22%

Electric cooperative, public and private utility consumers were asked to rate their own utilities. Cooperatives rated the highest with their own consumers. Roper observed that public and private utilities did not enjoy the level of consumer satisfaction evident for cooperatives.

Electric cooperatives enjoy a high degree of consumer satisfaction, better than any other type of electric utility. For people who say they are served by electric cooperatives, solid majorities rank cooperatives highest in fairness of 'profits', consumer influence, concern for the environment, fairness of rates, management efficiency and dependable service. (11)

COOPERATISATION

Consumer cooperatives demonstrate the possibility of empowering consumers. Electric cooperatives in the U.S.A. have converted this possibility into a reality - an economically viable reality for electric consumers, the accountancy profession and investment bankers. What has been achieved in the U.S.A. is possible for Victoria - particularly with a Government committed to empowering consumers.

Empowering consumers, however, has typically been considered to be the opportunity for consumers to exercise their sovereignty in the marketplace through decisions to buy or not buy goods and services from private and public enterprises. Cooperative ownership extends the empowerment of consumers - enabling consumers to own and control providers.

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